

October 19, 2015

2015-804

Tom Butt, Mayor
City of Richmond
450 Civic Center Plaza, Suite 300
Richmond, California 94804

Dear Mayor Butt:

The California Government Code, section 8546.10, authorizes the California State Auditor (state auditor) to establish a high risk local government agency audit program (local high risk program) to identify local government agencies, including but not limited to, counties, cities, and special districts, that are at high risk for the potential of waste, fraud, abuse, and mismanagement, or that have major challenges associated with their economy, efficiency, or effectiveness.

On July 1, 2015, the state auditor informed the city of Richmond that it exhibited certain risk factors—in particular, a persistent budget deficit and a shortage of cash reserves—that would warrant an initial assessment under our local high risk program. The purpose of the initial assessment was to better understand these risk factors and to identify the city's current and planned actions to address these issues. We provided you with a draft copy of our initial assessment on August 10, 2015.

Based on our assessment, we identified several risk factors that support our initial concerns about the city's ability to address its budget deficit. As a result, in August we recommended that the Joint Legislative Audit Committee (audit committee) approve an audit of the city of Richmond. However, as you may know, due to constraints in the legislative calendar, the audit committee hearing to consider the audit proposal was cancelled. Nevertheless, the state auditor will continue to monitor the city's progress in addressing certain risk factors. Accordingly, the state auditor requests that the city provide documentation by December 31, 2015, that identifies its progress in the following areas:

- Making the planned additional expenditure reductions of \$500,000 for fiscal year 2015-16.
- Monitoring departments so that they do not exceed their fiscal year 2015-16 budgets.
- Managing changes in the city's primary revenue sources.
- Controlling the high level of overtime usage of the Fire and Police Departments.
- Addressing the city's substantial unfunded pension and other postemployment retirement benefit liabilities.

Upon receipt of the information requested above, we will conduct additional analyses which may include returning to Richmond. Furthermore, based on our analysis and assessment of the information provided, we may request approval from the audit committee to perform an audit of

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Richmond when the Legislature reconvenes in early 2016. Should the state auditor plan to perform additional work on site, we will notify you at that time.

We greatly appreciate the cooperation provided by city officials during the initial assessment. If you have any questions, please do not hesitate to contact John Baier, Audit Principal, at (916) 445-0255.

Sincerely,

A handwritten signature in cursive script that reads "Elaine M. Howle".

ELAINE M. HOWLE, CPA
State Auditor

Enclosures

cc: Bill Lindsay, City Manager
Belinda Warner, Finance Director